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Q&A: Funding for transport infrastructure in the new EU budget

Comments on the Commission's communication "A Budget for Europe 2020"

July 2011

On 29 June 2011, the Commission proposed a new seven-year EU budget (Multiannual Financial Framework, MFF) that covers EU public expenditure between 2014 and 2020[1].

This paper summarises the transport-relevant parts of the MFF and attempts to check whether it can help 'decarbonise' the transport sector.

Q1: Objectives: what are the targets of the next EU budget?

The key stated objective of the MFF is to help achieve the Europe 2020 objectives of 'smart, sustainable and inclusive growth'.

The 'sustainable' part of these objectives is addressed in two ways: by maintaining a special 'green' fund, and by integrating environmental concerns in all budget items – so-called 'mainstreaming'.

The 'green' fund, LIFE+, is currently small, €330m per year. The Commission proposes to raise it to €460m per year, a bit more, but still only 0.3% of the overall budget.

On 'mainstreaming', the proposal says *'Mainstreaming [of climate objectives in cohesion, energy and transport] should aim at climate-proofing of investment'*. Climate proofing is not defined further, though.

In addition, the proposal says that *'the commission intends to increase the proportion [of low carbon spending in the budget] to at least 20%'*.

The Commission proposal offers some modest steps towards greening the EU budget and its transport parts.

But the wording is very vague. How serious the intentions are will only become clear once the specific proposals for the transport and cohesion policy are released – this Autumn.

The transport sector is particularly important for climate policy, as it is the only sector that has seen its greenhouse gas (GHG) emissions increase over the past two decades. The EU should ensure that the sector pays its share in future GHG reductions by, in particular, making sure it meets its 70% GHG reduction target (compared to 2008 levels) set in the Transport White Paper[2].

Q2: Sources of funding: what role for private investment?

The Commission intends to concentrate public funding on the investment that would not occur without public intervention. As a result most of the €500bn required for the TEN-T network by 2020 is expected to be covered by the market and private investors.

New financial instruments aiming at leveraging public investment, such as 'project bonds', are likely to be created in order to close the gap between the investments needed and the public resources available. The project bond initiative, jointly launched by the EU Commission and the EIB, aims at boosting project investment by offering public guarantees for private investments.

Intrinsically, it follows that the 'success' of the instrument in raising funds will depend on the amount of risk transferred. But the financial crisis has shown us definitively that public guarantees for private debt are not 'free'. Ultimately taxpayers from the 27 EU Member States will pick up the bill when things go wrong. We are surprised and concerned that this fundamental issue is not explicitly dealt with in the budget proposal, let alone strategies for mitigating it.

Q3: Structure of transport funding: business as usual?

At this moment transport funding comes from two main sources: the Trans European Network programme (TEN-T) and cohesion funds. Cohesion spending on transport is about 10 times bigger than the TEN-T spending.

The new proposal suggests the creation of a 'Connecting Europe Facility' from which transport, energy and ICT infrastructure will be financed.

In essence the creation of the 'Connecting Europe Facility' is a rebranding of the TEN funds which currently contains a transport (TEN-T) and an energy (TEN-E) arm.

But the lion's share of transport spending will likely still come from cohesion funds. In summary, hardly anything changes in terms of the structure of transport funding.

Q4: Level of transport funding: business as usual?

The Commission proposes that the 'Connecting Europe Facility' will dedicate €21bn, or €3bn/year, ≈ fund is €8bn, or €1.1 bn per year.

In addition, it proposes to earmark €10bn in cohesion funds for the completion of the TEN-T core network specifically.

Other transport projects will continue to be supported by EU structural funds but the amount allocated to these projects is not known yet, as Member States will take the funding decisions at a later stage.

While transport spending in the 'Connecting Europe Facility' seems much bigger than the current TEN-T fund, the Commission proposal is in reality similar to the initial proposal made for the preparation of the 2007-2013 budget – in 2004 the Commission proposed to allocate €20.35bn to TEN-T projects.

The €10bn/year earmarking of cohesion funding for transport also looks like a huge increase. However, it is a symbolic earmark as it amounts to only one eighth of transport spending in the cohesion fund in 2007-2013.

At this stage of the process, it is impossible to say if transport expenditures will increase or decrease in the next EU budget, as there is currently no information on the amount of transport spending that Member States will plan in cohesion funding.

Q5: Management: towards a better monitoring of investment?

The Commission proposed to manage centrally the Connecting Europe Facility with the support of an executive agency. The fund will be focus on a limited number of pan-European projects with high EU added value.

The Commission does not specify whether it intends to adopt a common set of guidelines or a single methodology for the selection of all the EU-funded transport projects.

Q6: Selection: are criteria adopted to prioritise spending?

On paper, the Commission says that transport investment has to be done in a way that *'maximises positive impact on economic growth and minimises negative impact on the environment'* focusing on cross-border projects and bottlenecks. In addition, it recommends improving the use of the existing infrastructure and looking at IT solutions as an alternative to hard infrastructure building. A preliminary list of European corridors to be funded by the new infrastructure facility is attached to the Commission's communication.

Worryingly, there is so far no concrete indication of how the projects eligible for funding will be selected. The preliminary list of corridors is not detailed enough to allow a detailed analysis of these investments (modal split, size, etc.).

In general, the EU should adopt a set of criteria to make sure that EU-funded transport projects contribute to the overarching decarbonisation objective.

An additional and independent test should evaluate the climate performance of the projects (in terms of GHG emissions) and serve as a basis for modulating the co-funding rates.

The proposal already suggests modulating co-funding rates on the basis of the cost-benefit analysis of the projects. This mechanism should be extended to climate performance so as to guarantee that low-CO_2 investment is incentivised.

Conclusion - What are the next steps?

In the autumn, the Commission will issue the proposals to reform the different financial regulations. These new rules will be essential to provide the necessary framework for low-carbon investment.

In order to effectively invest in a sustainable transport system, T&E believes that the EU should:

- Incentivise the selection of clean and green projects through differentiating co-funding rates. This would also favour projects that improving the use of existing infrastructure (upgrade, implementation of ITS, etc.) and manage demand. For this, a methodology needs to be developed to climate-proof EU-funded projects;
- Stimulate application of the 'user-pays' principle for EU-funded projects. Current practice discourages this by deducting payments by users from EU grants. Indirectly this also discourages investment in rail as users HAVE to be charged for the use of infrastructure whereas road users MAY be charged. **See the T&E briefing on Greening transport spending:** www.transportenvironment.org/Publications/prep_hand_out/lid/645

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[1] European Commission, COM(2011) 500 final – A Budget for Europe 2020 – Parts I and II

[2] European Commission, COM(2011) 144 final – White Paper: Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system